Statement of

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before the

SUBCOMMITTEE ON COURTS, THE INTERNET AND INTELLECTUAL PROPERTY
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U.S. HOUSE OF REPRESENTATIVES

on

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Good Afternoon Chairman Smith, Ranking Member Berman, and Members of the Subcommittee, I am pleased to have this opportunity to present the U.S. Patent and Trademark Office's (USPTO) views regarding the Post-Grant Review of patents.

Before I turn to this important subject, I just want to take a moment to thank you all for your continued leadership on innovation and USPTO issues, in particular your leadership on one of our legislative priorities the "USPTO Fee Modernization Act," H.R. 1561. While the House-passed bill has some differences from the Administration's proposal, the House has taken a vital step in enhancing the role that intellectual property plays in promoting the growth of the American economy. This crucial step would not have been possible without your leadership and support.

As you all know, the "Fee Bill" is necessary to implement our 21st Century Strategic Plan. The Strategic Plan was developed in response to a congressional requirement.[1] Accordingly, the Strategic Plan was created after a rigorous top-to-bottom

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[1] See 21st Century Department Of Justice Appropriations Authorization Act, Pub. L. No. 107-273, § 13104, 116 STAT. 1758 (Nov. 2, 2002).

review of all USPTO operations, policies, and procedures. This resulting blueprint for modernizing the Office contains 37 initiatives that focus on quality, productivity, and e-government. As former Under Secretary James Rogan testified before this Subcommittee in the past, patent quality is one of the most important, if not the foremost, goals of the agency.[2] Creating a new procedure to permit the agency to review economically significant patents after they are granted based on the full participation of interested parties is an important part of the Strategic Plan's goal to enhance patent quality.

I. History and Background of Post-Grant Review

As the Members of the Subcommittee know, the USPTO confers property rights in the form of a patent grant to applicants who meet the criteria established by Congress and pursuant to applicable case law. These patentability criteria for an invention are set forth in Title 35 of the United States Code and include eligibility/utility (§ 101), novelty (§ 102), non-obviousness (§ 103), and the written description and enablement of the invention and definiteness of the claims (§ 112).

Currently, the USPTO has only a limited role in reconsidering patentability decisions after patents issue. The post-grant review of patent claims takes place before the USPTO under several circumstances, including,

(1) when a patentee files an application to reissue a patent to correct at least one error in the patent,
(2) when an applicant and a patentee claim the same invention and an interference is declared between the patentee and the applicant, and the applicant seeks judgment based on unpatentability of patent claims, and
(3) when a patent owner or third-party requests the reexamination of a patent.

Congress has incrementally added to the range of proceedings under the USPTO's jurisdiction under which third parties could provoke Office review of issued patents. It introduced *ex parte* reexamination in 1980, under which a third party could petition for reexamination of the patent.[3] In 1984, section 135 of the Patent Act was amended to allow issues of patentability, as well as priority, to be included in interference proceedings.[4] In 1999, Congress, as part of the landmark patent reform, the American Inventors' Protection Act (AIPA), created *inter partes* reexamination, whereby the third party could participate in the reexamination proceeding and appeal to the USPTO's administrative Board of Patent Appeals and Interferences.[5] The AIPA's *Inter Partes*

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[2] See "*United States Patent and Trademark Modernization Act of 2003" Hearing before the Subcomm. on Courts, the Internet and Intellectual Property*, 108th Cong. 61 (2003) (Statement of James E. Rogan, Director, United States Patent and Trademark Office).
[3] Pub. L. No. 96-517, § 1, 94 Stat. 3016 (1980).
[4] Pub. L. No. 98-622, 98 Stat 33831 (1984).
[5] Intellectual Property and Communications Omnibus Reform Act of 1999, S. 1948, Pub. L. No. 106-113 (1999).

reexamination practice was expanded in 2002 to afford third parties the right to appeal to the U.S. Court of Appeals for the Federal Circuit.[6]

Although through these amendments, the USPTO's role in helping guarantee the efficacy of the patent system after patent issuance has grown, none of these procedures alone, or collectively, have proven sufficient to optimize the USPTO's post-grant capability. Although a patentability challenge can be raised on all grounds in interferences, interference proceedings only lead to challenges of patents when a pending application raises a priority issue as to a recently issued patent. Further, a third party may file a protest in a reissue proceeding; however, that is rare, and the third party has very limited participation. Apart from interferences and a reissue protest, a third party may challenge the patentability of patent claims in the Office only based on certain prior art references, namely patents or printed publications via reexamination. In addition, except in interferences, a third party cannot conduct discovery and develop evidence necessary to challenge patentability, nor can the third party challenge patent owner evidence by cross-examination.

Potential challengers have also regarded *ex parte* reexamination as an insufficient mechanism because, after the proceeding has begun, the third party's participation is limited to one reply, and then, only if the patent owner files a pre-examination statement. As a result *ex parte* reexamination has not been utilized by third parties to the degree anticipated. The *inter partes* reexamination procedure established in 1999 was intended to address this defect; however, limitations on that process have led to it being rarely used. In particular, patentees understandably insisted, and Congress legislated, that a challenger in an *inter partes* proceeding be bound by its result by way of estoppel, including in subsequent litigation. However, the lack of such procedural mechanisms as discovery and cross-examination that would be available in litigation appears to mean that challengers have been unwilling to invoke *inter partes* reexamination and risk its estoppel effect. In fiscal year 2003, for example, the USPTO received approximately 355,000 patent applications and issued approximately 160,000 patents. Over the past five years, we have received approximately 1,600,000 applications and issued approximately 900,000 patents.[7] Yet, the total requests for *inter partes* reexamination during the nearly five years for which the procedure has been available, is a mere 46 .[8]

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[6] *21st Century Department of Justice Appropriations Authorization Act,* Pub. L. No. 107-273, 116 Stat. 1758, 1899-1906 § 13202 (2002).

[7] U.S. PATENT AND TRADEMARK OFFICE PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2003. http://www.uspto.gov/web/offices/com/annual/2003/index.html.

[8] These *inter partes* reexamination requests included 29 patents from mechanical technologies, 8 in electrical arts, 7 in chemical arts, and 2 in biotechnology.

II. Alternatives for Reform: Establishing a New Post-Grant Review System

This history helped lead the USPTO in developing its Strategic Plan and considering whether it could improve its capability to conduct post-grant review of issued patents. The goals of any post-grant review process are as important today and should be the same goals as when Congress considered this issue more than twenty-years ago. Then, the reexamination process was being pioneered by former Subcommittee Chairman Robert Kastenmeier, who during floor consideration of the legislation, summarized its goals:

> First, to settle validity disputes more quickly and less expensively than litigation;
> Second, to allow courts to refer patent validity questions to an agency with expertise in both the patent law and technology; and
> Third, to reinforce investor confidence in the certainty of patent rights by affording an opportunity to review patents of doubtful validity.[9]

The current system, we concluded, has turned out to be too limited in a variety of substantive and procedural ways to meet these objectives.

Accordingly, we looked to the experiences of interferences and reexamination to see if the USPTO could suggest an alternative that would come closer to satisfying these objectives. The result was a post-grant review proposal published on the USPTO web site in April of 2003 as part of its 21st Century Strategic Plan.[10] It proposes a review model different from reexamination -- namely, a genuinely contested case presided over by a panel of administrative patent judges, which, upon the challenger's presenting sufficient grounds to believe that patent claims are unpatentable, would include closely directed discovery and cross-examination. The proceeding would be designed to be concluded within a year and would provide for challenges based on all grounds of unpatentability, but not inequitable conduct. It would be available to all challengers for a year after a patent issues and thereafter to those threatened with infringement litigation.

The USPTO's proposal is thus designed to put review of the propriety of patent claims that the public regards as important in the hands of senior, legally qualified officials with experience in dispute resolution. It is designed to be more efficient than litigation, while preserving enough of the full participation accorded to parties in litigation that challengers will be willing to risk being bound by the result. By providing for the possibility of amendment of challenged claims, the proposed system would preserve the merited benefits of patent claims better than the win-all or lose-all validity contests in district court.

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[9] 126 Cong. Rec. 29, 895 (1980) (Statement of Rep. Kastenmeier). See also H.R. Rep. No. 96-1307 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6460; see *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 601; 225 U.S.P.Q. (BNA) 243, 248 (Fed. Cir. 1985).

[10] See *Action Papers and Implementation Plans as of April 2, 2003, Post-Grant Review of Patent Claims*, located at http://www.uspto.gov/web/offices/com/strat21/action/sr2.htm.

This procedure may be reminiscent of legislation introduced by Representatives Berman and Boucher last session, the "Patent Improvement Act of 2001," H.R. 1333. In fact, many of the ideas that the USPTO is incorporating are not new, but rather in accord with much of that legislation to create some sort of post-grant review of issued patents. Many of the concepts that are proposed regarding "post-grant" have been discussed in various circles for decades, including among members of the stakeholder and bar communities. It is necessary to emphasize that we are not creating the "opposition panel" that is detailed in H.R. 1333; however, we are confident that the Subcommittee will be pleased by how far our proposal goes while being respectful of the independent inventor and the small business community. In fact, the small business community will be the greatest beneficiaries of this reform.

The subsequent response from those studying the patent system and from user groups suggests that such a more robust post-grant review procedure is an idea whose time has come. As you may know, two recent reports on the U.S. patent system issued since the 21st Century Plan, espouse post-grant review proposals strikingly similar to the USPTO's. Interested groups such as the American Intellectual Property Law Association and the Intellectual Property Owners also passed resolutions supporting the concept.

This is not to say that all those who have spoken on the issue have espoused exactly the contours of the proposal that the USPTO put forth in its Strategic Plan. For example, in February, the Office conducted a roundtable discussion where we heard from more than a dozen members of the public, the bar, and the inventor community on post-grant procedures. Some participants, particularly those representing small companies, suggested that the USPTO's proposal did not go far enough – that a post-grant review proceeding should be more fully available throughout the life of the patent, so that potential new entrants could test the validity of patents before they begin research and development efforts. Conversely, other participants would limit the time in which such a challenge could be brought in the Office.[11] Yet the participants advocated the desirability of a more rigorous means for testing patent claims. Further, there was general agreement that it was desirable to provide a post-grant system that is more predictable, timely, and reliable than exists today.

The experience of the past twenty-five years helps establish what such a system must avoid. Such a system:

- must *not* be a system that allows for the harassment of inventors and patent owners. We intend to have a rigorous standard for allowing full proceedings and sanctions for frivolous filings. Inventors should not be faced with re-litigating issues that there has been an opportunity to air thoroughly before the USPTO.

- must *not* be a Japanese or European-style opposition system which has been criticized as being wide open-ended and indeterminate procedures for the parties

[11]The statements for this event are available at *Roundtable on Equities of Inter Partes Re-examination Proceedings* held Feb 17, 2004 and documented at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/reexamproceed/news_and_notice.htm.

involved. Our proposal includes tightly controlled time frames. We will have definite scope and durations.

Drawing, however, on the lessons of the past twenty-five years, we believe it is time to develop a new American procedure that will help increase public confidence in one of America's truly great legacies – the Patent System – by establishing a more rational post-grant inquiry regarding patent validity. We contemplate that it will be a cost-effective alternative to the acknowledged litigation crisis while still strongly protecting the public and respecting the inventors at the heart of our system.

We look forward to working with this Subcommittee and interested parties to develop a sound proposal that will draw on the capabilities of the USPTO to better serve the vitality of the patent system.

I know that there is great interest in this subject and I look forward to answering your questions. Thank you.